

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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September 11, 2019

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission
v.
Valley Energy, Inc. – Supplement No. 49
to Tariff Electric – Pa. P.U.C. No. 2
Docket No. R-2019-3008209

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully submitted,

Handwritten signature of Christy M. Appleby in blue ink.

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-Mail: CAAppleby@paoca.org

Enclosures:

cc: The Honorable Steve K. Haas, ALJ
The Honorable Benjamin J. Myers, ALJ
Certificate of Service

*278513

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	R-2019-3008209
	:	
Valley Energy, Inc.	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa.C.S. §333, and the Prehearing Conference Order dated September 5, 2019, of Administrative Law Judges Benjamin Myers and Steven Haas (ALJs), the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On July 1, 2019, Valley Energy, Inc. filed Supplement No. 49 to Tariff Gas - Pa. P.U.C. No. 2 at Docket No. R-2019-3008209 (Supplement No. 49), with an effective date of August 30, 2019.¹ Valley proposes an overall distribution rate increase of \$1,034,186 per year, or a distribution base rate increase of 20.60%. Under the Company’s proposal, the monthly bill of the average residential customer using 71 Ccf would increase from \$10.50 to \$12.79, or by 21.8%. Additionally, the Company proposes to increase the residential fixed monthly charge from \$49.75 to \$56.94.

¹ Citizens’ Electric Company of Lewisburg filed Supplement No. 132 to Tariff Electric – Pa. P.U.C. No. 14, at Docket No. R-2019-3008212 with an effective date of August 30, 2019; Wellsboro Electric Company filed Supplement No. 125 to Tariff Electric – Pa. P.U.C. No. 8 at Docket No. R-2019-3008208 with an effective date of August 30, 2019.

On July 30, 2019, the Office of Consumer Advocate (OCA) filed a Formal Complaint and Public Statement. On July 19, 2019, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. On July 22, 2019, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance. On August 29, 2019, the OSBA filed a Formal Complaint and Public Statement.

The proceeding was assigned to Administrative Law Judges Benjamin Myers and Steven Haas. By order entered August 29, 2019, the Commission suspended the implementation of Supplement No. 49 until March 30, 2020, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in Supplement No. 49. On September 9, 2019, Citizens', Valley Energy, and Wellsboro Electric each filed separate Tariff Supplements to voluntarily suspend the effective date of rates for an additional thirty (30) days until on or about April 29, 2019. A prehearing conference is scheduled for September 13, 2019.

II. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of Valley's base rate filings, the Office of Consumer Advocate has compiled a list of issues that it anticipates will be included in its investigation of the Company's requests. It is anticipated that issues in addition to those enumerated below may arise and may be pursued once the answers to the OCA's interrogatories have been received and analyzed. The OCA reserves the opportunity to present any new or unanticipated issues at such time.

The OCA has served four (4) sets of interrogatories to date. Upon submission of future interrogatories and receipt of the answers to those interrogatories, the OCA may then be able to narrow the scope of additional information requests. Once the discovery process has been completed, the OCA will file direct testimony which will set forth the specific issues that the OCA

will address in this proceeding. At that time, the OCA will also be able to make and to quantify its specific recommendations.

The following sets forth the issues that the OCA anticipates it may raise at this time:

A. Rate of Return

The OCA will perform a detailed analysis of the cost of common equity claimed by the Company. The OCA will carefully examine the Company's methodologies and supporting data used to develop their final cost of equity claim. In particular, the OCA will review the cost of equity models and how they have been implemented. The OCA will examine the capital structures and long-term debt proposed by the Company so as to determine if they are appropriate.

B. Rate Base/Measures of Value

The OCA will examine the reasonableness and accuracy of the projections of Valley pertaining to the gas utility plant in service at the time relevant to this proceeding including, but not limited to, whether the projected rate year plant will be completed as claimed and whether retirements are accurately reflected. The OCA will review the Company's claims for plant additions during the projected rate year to determine if the Company has demonstrated that all such costs are (or will be) prudently incurred and whether the claimed plant is a proper reflection of that which will be in service during the rate year.

Further, the OCA will examine the Company's use of a fully forecasted future test year in its filing and whether the Company's use of a year-end rate balances for certain rate base items is appropriate in the context of a fully forecasted test year.

C. Revenues and Expenses

The OCA will review the reasonableness and accuracy of the Company's projected revenues, including but not limited to, customer usage, annualized number of customers, and

miscellaneous revenues adjusted for known and certain rate year changes. The OCA will examine the appropriateness, reasonableness, and accuracy of the Company's claims for wages and benefits, rate case expenses, uncollectible accounts, pensions and OPEBs, as well as other categories of expenses. The OCA will also review the claimed allowance for depreciation to ensure that it properly reflects plant that will be in service during the rate year and that the underlying depreciation rates are reasonable.

D. Rate Structure/Cost of Service/Rate Design

The OCA will examine the Company's Class Cost of Service Studies with particular regard to the appropriate and Commission-approved methods to allocate distribution facilities, and the proper recognition of various expenses between classes. The OCA will examine the Company's Class Revenue responsibilities and apportionment of the revenue increases given the cost of service results, as well as recognition of other relevant factors and ratemaking principles. Also, the OCA will examine the Company's respective proposed rate designs, including the increase to residential customer charges.

E. Other Issues

The OCA will examine the reasonableness and appropriateness of the Company's proposed tariff changes, any relevant issues that arise as a result of the Company's operations, and will investigate to ensure that the Company is complying with all prior orders.

III. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. Each witness will present testimony in written form and will also attach various exhibits, documents, and explanatory information, which will assist in the presentation of the OCA's case.

Accounting/Regulatory Policy: Stacy L. Sherwood &
Lafayette Morgan, Jr.
Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044
sherwood@exeterassociates.com
lmorgan@exeterassociates.com

Rate Design/Cost Allocation: Jerome D. Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044
jmierzwa@exeterassociates.com

Return on Equity/Capital Structure: David Habr
Habr Economics
213 Cornuta Way
Nipomo, CA 93444-5020
david.habr@habreconomics.com

The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case, the Presiding Officers and all parties of record will be notified promptly. The OCA requests that responses to all discovery requests be provided to all of its consultants.

IV. EVIDENCE

The OCA will rely on the direct, rebuttal, and surrebuttal testimony of its expert witnesses as well as the testimony of the other parties to the proceeding. The OCA will present relevant exhibits to support its own testimony, including but not limited to, materials obtained from the Company's through discovery and cross-examination. As described above, the OCA's witnesses will present testimony in the following areas: accounting and regulatory policy, rate design, and rate of return/cost allocation.

V. PROCEDURAL RULES / DISCOVERY

The OCA proposes that the following modifications to the rules of discovery be adopted:

- a. Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service. Discovery and discovery-related pleadings propounded after 12:00 noon on a Friday or after 12:00 noon on any business day immediately preceding a state holiday will be deemed served on the next business day for purposes of determining the due date of the responses and responsive pleadings.
- b. Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served to the ALJ in writing within five (5) days of service of the interrogatories. Objections to interrogatories served on a Friday shall be communicated orally within four (4) calendar days, and unresolved objections shall be served to the ALJ in writing within six (6) days of service of the interrogatories.
- c. Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of the written objections.
- d. Answers to motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.
- e. Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.
- f. Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
- g. Any discovery-related pleading such as objections, motions, or answers served on a Friday or the day before a holiday recognized by the Commission will be deemed to have been served on the following business day for purposes of tracking due dates.

VI. PUBLIC INPUT HEARINGS

The OCA has received two requests for public input hearings in the Valley service territory from the Borough of Athens and the Borough of South Waverly. The OCA respectfully requests that a telephonic public input hearing be scheduled in this matter.

VII. SERVICE ON THE OFFICE OF CONSUMER ADVOCATE

The OCA will be represented in this case by Assistant Consumer Advocates Christy M.

Appleby and J.D. Moore and Senior Assistant Consumer Advocate Aron J. Beatty. Two copies of all documents should be served to the OCA as follows:

Christy M. Appleby
Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
Telephone: 717-783-4532
Cappleby@paoca.org

As a courtesy, the OCA requests that any documents served electronically also be directed to Aron Beatty at abeatty@paoca.org, J.D. Moore at jmoore@paoca.org, our Legal Assistant, Lauren Myers, at LMyers@paoca.org, and to the OCA witnesses identified above. The OCA has created a combined list at CWV2019@paoca.org that will e-mail all of the above-identified individuals.

VIII. PROPOSED SCHEDULE

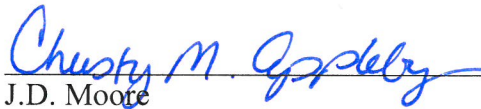
The OCA will work with the parties to develop a mutually agreeable procedural schedule. The OCA notes that since the issuance of the Prehearing Conference in this case, the Company revised its suspension date to April 29, 2020. The OCA proposes the following procedural schedule in this matter:

Other Parties' Direct Testimony	October 18, 2019
Rebuttal Testimony	November 13, 2019
Surrebuttal Testimony	December 4, 2019
Rejoinder Outline	December 11, 2019
Hearings	December 16-17, 2019
Brief	January 7, 2020
Reply Brief	January 17, 2020

IX. SETTLEMENT

The OCA will participate fully in all settlement discussions.

Respectfully Submitted,



J.D. Moore

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Dated: September 11, 2019
*278600

Aron J. Beatty
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PA Attorney I.D. # 86625
E-Mail: Abatty@paoca.org

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :
v. : Docket No. R-2019-3008209
Valley Energy, Inc. – Supplement No. 49 to :
Tariff Electric – Pa. P.U.C. No. 2 :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 11th day of September 2019.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

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Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Adeolu A. Bakare, Esquire
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Harrisburg, PA 17108-1166

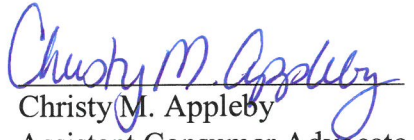
Sharon E. Webb, Esquire
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300 North Second Street
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Suite 202
Harrisburg, PA 17101-1303

Brian Kalcic
Excel Consulting
225 South Meramec Avenue
Suite 720
St. Louis, MO 63105

Jonathan P. Foster, Sr., Esquire
Foster Law Office
303 South Keystone Avenue
Sayre, PA 18840
Counsel for the Borough of South Waverly
Counsel for the Borough of Athens

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Dated: September 11, 2019
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